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In the Supreme Court of the United States

OCTOBER TERM, 1962

No. 438

UNITED STATES OF AMERICA, APPELLANT

v.

THE SINGER MANUFACTURING COMPANY

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR THE UNITED STATES

OPINION BELOW

The opinion of the district court (R. 1653–1717) is reported at 205 F. Supp. 394.

JURISDICTION

Final judgment dismissing the government's complaint in this case was entered on May 17, 1962, *nunc pro tunc* as of May 11, 1962 (R. 1718), and the United States filed a notice of appeal on June 29, 1962 (R. 1719). Probable jurisdiction was noted on December 3, 1962 (R. 1723; 371 U.S. 918). The jurisdiction of this Court is conferred by Section 2 of the Expediting Act, 32 Stat. 823, as amended, 15 U.S.C. 29.

QUESTIONS PRESENTED

1. Whether defendant and a foreign competitor combined and conspired to exclude their Japanese competitors from the United States in violation of Section 1 of the Sherman Act.

2. Whether an agreement between defendant and a foreign competitor to facilitate the issuance to each other of the broadest possible patent claims violated Section 1 of the Sherman Act.

STATUTE INVOLVED

Section 1 of the Sherman Act, 26 Stat. 209, as amended, 15 U.S.C. 1, provides in pertinent part:

> SECTION 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: * * *. Every person who shall make any contract or engage in any combination or conspiracy declared * * * to be illegal shall be deemed guilty of a misdemeanor * * *.

STATEMENT

This is a direct appeal from a final judgment of the District Court for the Southern District of New York dismissing a civil antitrust action brought by the United States against The Singer Manufacturing Company ("Singer"). On December 22, 1959, the government filed a complaint (R. 1–7) charging Singer with violating Sections 1 and 2 of the Sherman Act by combining and conspiring with two competitors, Fritz Gegauf, A.G. ("Gegauf") and Arnaldo Vigorelli, S.p.A ("Vigorelli"), to restrain and monopolize, and by unilaterally attempting to monopolize,

trade in household automatic zigzag sewing machines. After trial Chief Judge Ryan dismissed the complaint, holding that a violation of the Sherman Act had not been established.

I

THE FACTS

The case was tried in part on stipulations of fact and in part on documentary and oral evidence. The following statement of the relevant facts is developed primarily out of the stipulations, documents referred to therein, and the findings of the district court.[1]

A. THE NATURE OF THE HOUSEHOLD AUTOMATIC ZIGZAG SEWING MACHINE BUSINESS IN THE UNITED STATES

1. *Types of Household Sewing Machines.* There are two basic kinds of sewing machines manufactured for personal use in the home, *i.e.*, straight stitch and zigzag stitch. The former can sew only a straight line; the latter can produce various ornamental and

[1] "R.—" refers to the printed record in this Court. Citations to the opinion below are designated "Op., R.—". The stipulation of facts is cited to the appropriate paragraph thereof and to the page of the printed record on which it is located (*e.g.*, Stip. ¶5, R. 23). "GX —" and "DX —" refer, respectively, to the government's and defendant's exhibits. References to those parts of the record below which were certified to this Court but not printed are so identified (*e.g.*, Tr. (unprinted) 5800).

At the trial a number of exhibits were appended to the stipulation of facts and numbered S-1, S-2, etc. Some of those exhibits were later also introduced into evidence by the government or defendant and were given a "GX" or "DX" number. Exhibits to the stipulation of facts not independently introduced into evidence by either party are cited by their "S" number (*e.g.*, Ex. S-41, R. 1596). The remainder are referred to by both numbers (*e.g.*, GX 191 (S-25), R. 1334). See R.i, fn*, and xxv.

functional zigzag stitches as well as straight stitches (Stip. ¶¶6, 7, R. 23–24). The latter machines are of three general types (categorized as to their mode of operation): (1) The manually operated zigzag machine—which can produce a zigzag stitch in response to hand manipulation of an exterior handle or lever during the operation of the machine (Stip. ¶8(a), R. 24–25). (2) The replaceable cam machine—which can produce a zigzag stitch only when a cam designed to produce the desired pattern is manually inserted (Stip. ¶8(b), R. 25). (3) The machine-carried (or automatic) multiple cam zigzag machine ("multi-cam")—which can produce any one of a large number of different zigzag stitches in response to the turning of an exterior knob or dial (Stip. ¶8(c), R. 25). The third type, the multi-cam, is the subject of this litigation.

Although the automatic mechanism in each of the several models of multi-cam machines here involved functions in a slightly different manner, all utilize some variant of the same basic principle. Most multi-cam machines contain a number of rotary cams (disks with irregular configurations or undulated surfaces) and an object called a cam follower. When the operator wishes to produce a zigzag stitch he merely moves an exterior lever to a certain preselected position, thereby placing the follower in contact with a particular cam. While so engaged, the follower moves in a manner determined by the shape of the cam selected and the resulting motion is transmitted by means of a linkage to the needle, causing it to move-

laterally and produce a zigzag pattern.[2] See generally, Plaintiff's Summary of Patent Material (Tr. (unprinted) 5798, 5800–5802).

2. *Singer's Position in the Domestic Multi-Cam Market and Its Competition Therein.* With one minor exception[3] Singer is the sole United States manufacturer of household sewing machines and produces both replaceable cam and multi-cam machines, but not the manually operated zigzag (Stip. ¶¶ 9, 10, R. 25–26). Singer's only competition in the sale of its multi-cam and other sewing machines in the United States comes from imports (Stip. ¶ 12, R. 26). In 1959, Singer sold 156,445 multi-cams, amounting to about 61.4 percent of all domestic sales of such machines (GX 190 (S–24), 191 (S–25), 194 (S–28), R. 1333, 1334, 1336).[4] In the same year, 57,732 (about 22.6 percent) were imported from Japan and 40,773 (about 16 percent) from various European countries

[2] The physical differences among the multi-cam mechanisms utilized by the machines here involved consist, in the main, of the number of followers contained therein. Functionally, the distinctions center around whether the cams or the follower(s) are the movable part of the mechanism, and whether more than one follower can be engaged simultaneously with different cams.

[3] The New Process Gear Company, located in Syracuse, New York, manufactures only straight stitch machines on order for a single domestic customer (Stip. ¶ 10, R. 26; Ex. S–11, R. 1607).

[4] This percentage, and those following, are computed from data as to Singer's total *sales* of multi-cam units (GX 190 (S–24), R. 1333) and information as to total *imports* of such machines from Japan (GX 191 (S–25), R. 1334) and Europe (GX 194 (S–28), R. 1336). The record does not show how many imported machines actually were sold in any year.

(*ibid.*). For 1958 the approximate percentages were: Singer (69.6 percent), Japanese (20.7 percent) and Europeans (9.7 percent) (*ibid.*). The share of the market held by the Japanese and European manufacturers in 1958 and 1959 was divided among 8 and 9 companies, respectively (Ex. S–18, S–21, R. 1619–1620, 1622).

Singer's domestic sales of multi-cam machines amounted to more than $45 million in 1958, and $46 million in both 1959 and 1960; in each of those years such sales constituted around 45 percent of Singer's total United States sales of all types of sewing machines (GX 190 (S–24), R. 1333). In its complaint to the United States Tariff Commission, (Ex. S–11, R. 1602; see *infra*, pp. 20–21) Singer categorized its multi-cam machine as its "most important product."

The domestic distribution of Singer's machines is handled by its wholly owned subsidiary, Singer Sewing Machine Company (Stip. ¶ 9, R. 25).[5] Of the approximately 1,950 retail outlets for Singer sewing machines, all but about 270 are directly operated by that subsidiary (*ibid.*). "With the Singer machines, there is no bargaining about price in an outright sale" (Op., R. 1669). Thus, in 1958 and 1959, Singer's "319" multi-cam machine retailed throughout the country for $260 and the "401" multi-cam model sold

[5] Besides this sales subsidiary and its domestic factories, Singer owns and controls an electrical company which manufactures parts for its sewing machines as well as other products, a lumber company which owns timber lands, lumber mills and sewing machine cabinet factories, and a research and development company (Ex. S–11, R. 1599–1600). In addition, Singer manufactures and sells various types of sewing machines in many foreign countries (Stip. ¶ 9, R. 25–26).

for $300, or $340 if purchased with a carrying case (GX (S–24), R. 1333; Stip. ¶¶123, 142, R. 64, 72).[6]

Multi-cams imported from Japan and Europe are sold throughout the United States by independent retailers who order them directly from foreign manufacturers or distributors, or purchase them from local wholesale distributors who import them or obtain them from importers (Stip. ¶¶98, 99, R. 60, 61; see Ex. S–17, S–20, R. 1618–1619, 1621).[7] Most of the retailers selling foreign-made machines "fix their own list prices for machines handled by them" and also determine "the actual prices at which they sell such machines" (Stip. ¶143, R. 72). There is price competition among the various retailers of any particular foreign-model multi-cam machine, in addition to that among different type machines (see Ex. S–87, S–90, R. 1633–1634, 1641–1642; GX 197 (S–86), R. 1338–1339; Stip. ¶¶146, 147, 148, R. 73–74, 75–76).

The retail list prices of Japanese-made multi-cams range from about $90 to $340; these machines can be purchased from approximately $90 to $220 and at various intermediate prices, *e.g.*, $120, $150, $170 (Stip. ¶146, R. 73). European models may likewise be purchased at a discount (list prices range from about $250 to $400; selling prices vary from around $230 to $400 (Stip. ¶146, R. 73–74)), but customers generally "can bargain a greater amount off list price

[6] Presently Singer manufactures and sells only the "401" model in the United States, but it continues to produce and sell the "319" abroad (GX 190 (S–24), R. 1333; Stip. ¶ 19, R. 29).

[7] Some of the wholesale distributors are exclusive outlets for, or subsidiaries of, particular foreign manufacturers (Stip. ¶¶98, 99, R. 60, 61).

for Japanese-made machines than can be bargained off list price for European-made machines" (Stip. ¶143, R. 72). Singer has stated (Ex. S–11, R. 1604) that the wholesale prices of Japanese-made multi-cams "are far below any price which can be set by Singer." The district court noted that "Japanese made machines * * * because of their lower price were in substantial competiton with Singer" (Op., R. 1715), and found that the "principal threat to the Singer machine came from the Japanese imports not from European production" (Op., R. 1710).

B. SINGER'S AGREEMENTS WITH ITS COMPETITORS

1. *Background.* Zigzag sewing machines for industrial use were developed prior to 1900. The first zigzag machine manufactured for home use was Singer's manually-operated "206" model. The "206" was made by Singer in Germany from 1934 until World War II, and was sold to home users outside the United States from 1934 to 1951 (Stip. ¶14, R. 26–27). In 1948 shipments of an Italian Necchi manually-operated zigzag machine were made to the United States and "by 1951 sales of such machines commercially demonstrated that a definite market in a household type zigzag sewing machine existed in the United States" (Stip. ¶15, R. 27). In that same year, 1951, Singer first began to import its "206" model into this country from Scotland, where manufacture had begun in 1949 (Stip. ¶14, R. 27).

In September 1953 Vigorelli, an Italian manufacturer of sewing machines, introduced the first multi-cam machine into the United States, and a year

later the importation of Japanese models by Brother International Corporation ("Brother") commenced (Stip. ¶¶ 21, 22, R. 29, 30). During this period Singer was developing, and had filed patent applications on, two distinct types of multi-cam machines, its "319" and "401" models, which were not marketed until 1956 and June 1957, respectively (Stip. ¶¶ 17, 19, R. 27, 28, 29).* Singer itself recognized, and the district court found (GX 141, 142, R. 1207, 1210; Op., R. 1705), that Singer was "'behind the procession' of industry development and production in the zigzag field."

2. *Vigorelli.* While developing its multi-cam machines Singer conducted investigations in various countries to determine if there were any outstanding patents or pending patent applications in those countries that could prevent it from manufacturing and marketing the machines (Stip. ¶¶ 20, 23–27, R. 29, 30–32). By 1955 Singer had concluded that Vigorelli would dominate both the "319" and "401" machines in many foreign countries, and "it had no assurance that others might not do the same in the United States even if Vigorelli did not" (Stip. ¶ 26, R. 31–32).

During its investigations Singer discovered a United States patent issued to a Canadian named Carl Harris, which had been filed on June 9, 1953, "prior to any use or patent priority date then known to Singer" (Stip. ¶27, R. 32). Believing that this patent could

*The "401" machine is disclosed in Singer's "Johnson" patent (U.S. Patent No. 2,862,468); the "319" is disclosed in its "Perla" patent (U.S. Patent No. 2,810,360) (Stip. ¶¶ 17, 19, R. 28, 29).

be reissued with added claims of the type incorporated in the "401", "319", Vigorelli, and Brother machines, and, if so reissued, would "dominate" those machines, Singer purchased it from the Canadian inventor for $8,000 (GX 3 (unprinted) Tr. 3449).[9] Although Singer's patent position was thereby somewhat strengthened, Singer was anxious to negotiate with Vigorelli "to find some basis of agreement that would be mutually advantageous, rather than to litigate" (GX 4, R. 1022; see Stip. ¶32, R. 34). Mr. Lightner, then president of Singer, instructed the director general of Singer in Italy to begin negotiations with Vigorelli, stating (GX 4, R. 1023) that while Singer could use its patents and patent applications to "make trouble for Vigorelli" it would be preferable and "would greatly strengthen and broaden the patent situation if our position and theirs could be pooled by some mutual agreement."

On November 17, 1955, Singer entered into a non-exclusive, world-wide, royalty-free, cross-licensing

[9] In conjunction with its purchase of the United States Harris patent, Singer acquired corresponding Harris patents and patent applications in several foreign countries (Stip. ¶30, R. 33).

The purchase was negotiated in June 1955 by Stanford, the head of Singer's patent department, who told Harris that he was associated with a firm of Canadian patent attorneys (who actually represented Singer in Canada) and was acting for an undisclosed principal. The patent was actually assigned by Harris to Peter Kirby, a lawyer associated with the firm. (GX 3 (unprinted), Tr. 3443-3450.) The application for reissue of the patent was filed in the names of Kirby and Harris (GX173 (unprinted), Tr. 3892). The actual assignment of the Harris patent to Singer was made seven months later, in February 1956, and Singer's interest in the patent was revealed to the Patent Office when that assignment was then recorded (GX 173 (unprinted), Tr. 3951).

agreement with Vigorelli relating to two of Vigorelli's Italian patents, Singer's Harris patent and its Johnson and Perla applications (GX 11 (S-2), R. 1032; see Stip. ¶ 34, R. 35). This agreement provided that neither party would bring an infringement action against the other "in any country," [10] nor would either institute against the other "any opposition, nullity or invalidation proceedings in any country" (GX 11 (S-2), R. 1033-1034). It further provided that if the parties became involved in a proceeding before a patent office to determine priority "such as a United States interference or a Canadian conflict proceeding," they would settle it in accordance with the laws and regulations of the patent office concerned (GX 11 (S-2), R. 1034). After the agreement Singer withdrew its opposition to a Vigorelli patent application in Brazil (GX 14, R. 1039), and in June 1958 Vigorelli abandoned a United States interference between its application and Singer's Johnson application (Stip. ¶¶ 108, 109, R. 62). The Johnson patent issued on December 2, 1958 (Op., R. 1660).[11]

[10] In a letter from the Singer patent department to the general manager of Singer in Germany, this provision was construed as applying "in any country of the world" (GX 13, R. 1037).

[11] On April 16, 1957, Singer entered into a cross-licensing agreement with Messerschmitt, A.G. (GX 86 (S-4), R. 1146; see Stip. ¶59, R. 44), which contained a provision—"identical to that found in the Vigorelli agreement" (Op., R. 1701)—relating to the parties' conduct before patent offices. The purpose of this agreement was to resolve conflicts in several countries between Singer's applications covering its "319" machine and similar applications of Messerschmitt (see Stip. ¶¶ 47, 50, 52, 56, R. 40, 41, 42, 43). In May 1957 Singer purchased Mes-

3. *Gegauf.*[12] About one month before entering into the cross-licensing agreement with Vigorelli, Singer discovered that Gegauf, a Swiss sewing machine manufacturer which sold in competition with Singer in the United States and foreign countries, also had deposited multi-cam patent applications in a number of countries (Stip. ¶35, R. 35). In January 1956 Singer learned that Gegauf had pending in the United States a patent application with a priority date "nine days earlier" than Singer's Harris patent (Stip. ¶36, R. 36). Knowing that the claims in its Harris reissue application were about to issue, Singer assumed that the Patent Office would declare an interference between the Gegauf and Harris applications and that Gegauf would probably "be entitled to the broad claims" (Stip. ¶37, R. 37; GX 16, R. 1042).

Singer thereupon undertook to work out a cross-licensing agreement with Gegauf, "along the lines of the Vigorelli-Singer agreement," prior to the declaration of an interference (Stip. ¶37, R. 37; GX 16, R. 1043). Despite Gegauf's advantage flowing from the earlier priority date, Singer considered itself

serschmitt's United States patent application (GX 96 (S-5), R. 1159) but was unsuccessful in obtaining an assignment of corresponding foreign patent rights, which the court found it considered "worthwhile 'if of any value to restrict Japanese especially Brother'" (Op., R. 1703, 1704; GX 88, R. 1149). In July 1957 an interference between the United States Perla application and Messerschmitt's United States application was dissolved because both were then owned by Singer (Stip. ¶62, R. 44). The Perla patent issued on October 22, 1957 (Op., R. 1660).

[12] Gegauf is sometimes referred to in the record by its trade name, "Bernina" (see R. 111-112).

to be in good bargaining position because it could use the Harris reissue application during the interference, to oppose the final allowance to Gegauf "of the broad U.S. claims" covering multi-cam machines (*ibid.*).[13] At this time, Singer also discovered that Gegauf and Vigorelli had cross-licensed each other under an agreement "similar to the Singer-Vigorelli agreement" (Stip. ¶38, R. 37).

Singer and Gegauf then entered into negotiations for a cross-licensing agreement (see Stip. ¶¶39, 40, R. 38–39). One of Singer's negotiators, Mr. Waterman, then a Singer vice-president, reported, *inter alia*, on his meeting with Gegauf (GX 24, R. 1062; see Op., R. 1680):

> Gegauf's big fear is that the Japanese machines coming into the United States will be sold at a lower price than his machines will be because of their low-price labor. I think his fears are well-founded, and we did not do anything to cause them to be other than along the line that he was thinking, because one of the strong points of our argument for the agreement between our two companies is in order to

[13] Mr. Stanford, the head of Singer's patent department, wrote (GX 16, R. 1042-1043):

"[A] United States patent interference proceeding is a long and complicated affair during which each party has an opportunity to attempt to block the ultimate allowance of the interfering claims to the opponent party. The outcome of such an interference cannot be predicted with certainty. In other words, assuming that Bernina has filed * * * an application in the United States, then our Harris reissue application is of value to us as a means for opposing the final allowance to Bernina of broad U.S. claims covering multiple-cam ornamental machines."

> fight against this Japanese competition in their building a machine that in any way reads on the patents of ourselves and of Bernina which are in conflict.

Gegauf also feared that if certain prior patents were called to the attention of the patent offices in various countries, including the United States, Gegauf's claims might be limited or invalidated, and Singer "let them [Gegauf] know that we thought we could knock out their claims but that in so doing we were probably going to hurt both of us" (Stip. ¶40, R. 38–39; GX 24, R. 1063–1064). Thereafter, on April 14, 1956, Singer and Gegauf entered into a world-wide, non-exclusive, royalty-free, cross-licensing arrangement. This took the form of an agreement by each not to "attack" the other "either directly or indirectly in any country" on the basis of Singer's listed patents and patent applications in the United States and nine other countries, and Gegauf's listed patents and patent applications in the United States, Switzerland, Germany and Italy (GX 26 (S–3), R. 1066–1067; see Stip. ¶41, R. 39).

In addition, this agreement provided (GX 26 (S-3), R. 1066–1067):

> Singer and Gegauf realize that interference proceedings are about to be opened in the U.S.A. between the said Harris reissue application and one or more patent applications of Gegauf corresponding wholly or partly to its above mentioned patents and patent applications.
>
> In view of the foregoing, Singer and Gegauf have entered into the following agreement.

1) Singer and Gegauf each undertakes not to do anything either directly or indirectly and in any country, the result of which might restrict the scope of the claims of the other party relating to the subject matter of the above-mentioned patents and patent applications.

Singer and Gegauf each undertakes, in accordance with the laws and regulations of the Patent Office concerned, to facilitate the allowance in any country of claims as broad as possible, as regards the subject matter of the patents and patent applications referred to above.[14]

Later in April Vigorelli arranged a meeting between it and Singer, at which it suggested that since they and Gegauf "had arrived at certain agreements they should thereafter act in concert against others" (GX 27 (S-7), R. 1069; Stip. ¶ 64, R. 45). Singer rejected this suggestion but advised Vigorelli's patent attorney, Majnoni, that if Singer owned Gegauf's patents it could prosecute them "better perhaps than Gegauf could" (Stip. ¶ 64, R. 45; GX 27 (S-7), R. 1070). Majnoni, who felt that "it would be advantageous to all parties" if Singer owned the Gegauf United States application, thereafter, in response to Singer's intimation, raised the question of assignment with Gegauf (Stip. ¶¶ 65, 66, R. 45, 46). As a result of Majnoni's efforts (see GX 31, 32, R. 1075, 1078) a

[14] The interference that subsequently developed between the Singer and Gegauf cross-licensed applications was settled outside of the Patent Office, with Singer abandoning the interference on March 15, 1957 (Stip. ¶¶ 68, 71, 102, R. 46, 47, 61). The Harris reissue patent (U.S. Patent Re. No. 24,370) issued on October 8, 1957 (Op., R. 1660).

conference on assignment of the patent application was held in September 1956 between Gegauf and Singer, but negotiations ended because Gegauf refused to sell for less than $250,000 (Stip. ¶¶ 66, 70, R. 46).

About one year later, Singer again approached Gegauf regarding the proposed assignment. Waterman informed Gegauf that "proper enforcement" of the Singer and Gegauf patents might necessitate "patent suits against each of the importers in the United States, of whom there will perhaps be many," and pointed out "that neither one of us alone can protect himself most effectively" (GX 44, R. 1090–1091; see GX 43, R. 1089; Stip ¶ 73, R. 47). Gegauf replied that it was interested in discussing "mutual enforcement" of the parties' patents "against infringing products of the foreign manufacturers" (GX 45, R. 1092; Op., R. 1687).

After a conference in October 1956 at which Singer believed it had reached an agreement with Gegauf to purchase the application for $40,000 (Stip. ¶ 76, R. 48), the latter informed Singer for the first time that it had broken down its United States application into two parts (the second of which was known as a divisional application), and that it did not wish the assignment to include the division (Stip. ¶ 77(1), R. 48).[15] Gegauf also proposed two additional conditions: (1) that any legal actions brought by Singer against Europeans on patents issuing out of the as-

[15] The basic application ultimately issued as U.S. Patent No. 2,832,302 ("Gegauf I"); the division issued as U.S. Patent No. 2,877,726 ("Gegauf II") (Op., R. 1660).

signed application should first be consented to by Gegauf; and (2) that it receive $125,000 for the assignment (Stip. ¶77(2), 77(3), R. 48–49). Singer then made clear that it was interested only in purchasing the whole "application including divisions", since either standing alone was "weak" (Op., R. 1688; GX 50, R. 1097; see Stip. ¶¶ 77, 78, R. 49).

At the next conference, held in November, Gegauf significantly altered its position. While still asking for $125,000, Gegauf notified Singer that it "had no objection to making an assignment of [its] application by means of which Singer could stop as far as possible Japanese competitors in the United States market," provided that Singer would not manufacture a copy of the Bernina machine, and that Gegauf could sublicense one unspecified European company (Stip. ¶ 79, R. 50). Responding to Gegauf's argument that $125,000 was a cheap price, since by granting licenses it could "get every year many times more than the single payment of $125,000" (*ibid.*), Singer's representative pointed out that "it was not right to compare what Bernina [Gegauf] could get for a license to what Singer would pay for being in a better position for acting against common competitors" (GX 56, R. 1107). Gegauf's other fear—that if the Japanese were stopped in the United States they "would run to Europe"—was countered by Singer's assertion that "a greater risk was run in Europe if Singer were not permitted to first stop infringements in the United States" (Op., R. 1691).

After receiving a report on the above conference, Mr. Lightner, then president of Singer, drafted a

policy memorandum for Mr. Stanford, who was to go to Europe and negotiate the final agreement. This memorandum (Stip. ¶ 80, R. 51–52) stated, *inter alia,* that:

> The main purpose of Mr. Stanford's trip will be to obtain such control of the Gegauf patent applications in the United States as will put us in a position to own and control it in order to get the very best patents and bar import or U.S. production of mechanisms which would violate these patents.
>
> * * * * * *
>
> * * * While [$125,000] may seem high, yet over the years ahead the payment of such a price may well be justified by our having the ability to stop import of very low priced multi-cam machines, not only as a result of the help that we would have in the U.S. market in preventing such import, but also because inability to enter the U.S. market may discourage some people from entering the field, and raise unit costs in the case of those who do produce such machines for other markets.
>
> * * * * * *
>
> If Bernina is to continue to have the right to send machines into the United States and if they consider that right important, they may very well see the wisdom of enabling us to stop other imports from Europe as well as those from Japan.
>
> * * * * * *

During the negotiations Gegauf restated its fe that giving Singer the means to stop Japanese imports would divert such machines to the European markets, where Gegauf's primary interests lay.

Stanford, on Singer's behalf, set forth the common interest of the two concerns in stopping the Japanese. He reported that he "took the position that the United States was really the first line of defense and that if the Japanese were permitted to flood the United States market with ornamental stitch machines of the Bernina or Class 401 type they would become so strong and production would be so great that they would enter the European market in a stronger position" (GX 62, R. 1118). Accordingly, Gegauf was persuaded that "possibly it would be better to give Singer an opportunity to try to cut down the importation of multiple-cam machines into the United States," and negotiations proceeded to the questions of (1) licensing other European manufacturers in the United States, (2) licensing Gegauf in the United States, and (3) price (GX 62, R. 1119).

In the resulting agreement, dated December 5, 1957, Gegauf assigned all rights in its United States patent application and division to Singer for $90,000 (GX 58 (S–10), R. 1108; see Stip. ¶81, R. 54). Singer granted back to Gegauf a non-exclusive, royalty-free license to sell its machines in the United States and agreed not to make "a slavish copy" of the Bernina machine (GX 58 (S–10), R. 1109–1110). Singer also agreed not to institute legal proceedings to enforce the patents, when issued, against Pfaff in Germany or against Vigorelli in Italy without the approval of Gegauf (*ibid.*).

The report of Singer's patent department for 1957 emphasized that Singer's patent position was strengthened by the Gegauf assignment (GX 67, R. 1130).

The report stated that "[p]atents issuing on this application grouped with other Company patents should put Singer in a better position in any attempt to prevent others from importing into the United States multiple cam machines of the Singer Class 401 type" (*ibid.*). Later, in July 1958, Gegauf wrote Singer: "you intend to proceed against the Japanese on the basis of your patents and ours" (GX 66, R. 1128).

C. THE AFTERMATH OF THE AGREEMENTS

When the patent on Gegauf I issued Singer instituted two actions against Brother; the first charged infringement of that patent and the Harris reissue patent, while the second was based on the Johnson patent alone (Stip. ¶ 82(1), R. 54). These actions are presently pending (*ibid.*). Singer also brought infringement actions against two other importers of Japanese multi-cam machines (Sewing Machine Exchange and ACO Appliance Distributing Company), which terminated in consent judgments in its favor (Stip. ¶82(2), 82(3), R. 54–55). The latter company is enjoined from selling any machine embodying the inventions covered by Singer's Harris reissue, Gegauf I, and Johnson patents, while the injunction against the former only applies to machines covered by Harris and Gegauf I (*ibid.*).

In January 1959 Singer instituted a proceeding before the United States Tariff Commission, under Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. 1337, for the purpose of excluding from the United States all imported machines—Japanese and European—coming within the claims of Gegauf I (Stip. ¶82(4), R. 55). The proceeding could only have

been brought by an American manufacturer such as Singer and could not have been initiated by Gegauf. During the proceeding Singer came to believe that the Tariff Commission doubted the truth of Singer's statements that Pfaff was not licensed under the Gegauf 1 patent. While Pfaff was not in fact licensed, Singer's assignment agreement with Gegauf provided that Singer could not sue Pfaff for infringement without Gegauf's consent. To eliminate this impediment to a favorable result in the tariff proceedings, Singer prevailed upon Gegauf to delete from the assignment agreement Pfaff's name and all references to Pfaff. The sole motive and reason prompting this deletion was found to be that Singer might thereby have a better chance of prevailing before the Tariff Commission (Op., R. 1709–1710). The tariff proceeding has been stayed pending the outcome of the present case (Op., R. 1707).

II

THE DECISION OF THE DISTRICT COURT

The district court held that Singer neither conspired with Gegauf and Vigorelli to restrain trade in multi-cam sewing machines, nor unilaterally attempted to monopolize such commerce[16] (Op., R. 1717). It also held that the agreement between Singer and Gegauf that each would assist the other in obtaining the broadest patent claims possible was not illegal under the Sherman Act.

[16] We do not now challenge the district court's holding that Singer did not unilaterally attempt to monopolize commerce. We do not, however, concede the correctness of the district court's decision on this point.

In finding that there was no conspiracy in restraint of trade, the district court emphasized that Singer, Gegauf and Vigorelli had an attitude toward each other of "suspicion, wariness and self-preservation" (Op., R. 1693), and that with respect to Singer's acquisition of the Gegauf patent, "[n]either party was eager for the agreement finally made" (Op., R. 1694). It found that "Singer was not concerned with the effect [of competition] upon Gegauf in Europe as long as it did not affect Singer products in the United States," while Gegauf, whose "prime interest was the protection of its machine in Europe from Japanese infringements * * * gave but little weight to what might happen to Singer in the United States so long as Singer's danger did not affect Gegauf in Europe" (Op., R. 1693). Therefore, the court held that the alleged conspirators' dealings lacked "unity or identity of any common purpose or motive," and accordingly did not amount to a conspiracy (*ibid.*).

Considering the provisions in the cross-licensing agreement under which each party undertook, as to the listed patents and patent applications, (1) "not to do anything to restrict the scope of the claims of the other in any country," and (2) "in accordance with laws of the particular Patent Office, [to] facilitate the allowance to the other in any country of claims 'as broad as possible'" (Op., R. 1681), the court concluded that the provisions were neither conspiratorial acts nor themselves unlawful.

SUMMARY OF ARGUMENT

I.

Just as the owners of two competing patents cannot agree together that neither will license a particular competitor or class of competitors, they cannot engage in a course of concerted conduct intended to further their joint purpose of eliminating common competitors. In the present case Singer and Gegauf agreed together upon acts intended to enable one or both of them to exclude their Japanese competition from the United States market for their mutual benefit. They entered into a cross-licensing agreement one purpose of which was found to be "to obtain protection against the Japanese machines which might be made under the Gegauf patent" and which, to effectuate that purpose, provided that each would assist the other in obtaining the allowance of patent claims as broad as possible. When it became evident that Gegauf could not enforce its patent in this country as effectively as Singer could, Gegauf agreed that their common purpose of excluding the Japanese required the transfer of the Gegauf patent application to Singer. Upon the issuance of the Gegauf patent, Singer was then able to bring infringement proceedings against the Japanese and instituted a proceeding before the Tariff Commission to exclude all infringing imports. During this proceeding Singer and Gegauf again cooperated to amend their prior assignment of the patent rights to improve

Singer's chances before the Tariff Commission, in order to facilitate the exclusion of their common competitors.

The Sherman Act, which is bottomed on the belief that each competitor must compete separately, does not permit such a combination of the efforts and legal powers of two competitors in order to exclude a third. See *Standard Oil Co.* v. *United States*, 283 U.S. 163; *American Tobacco Co.* v. *United States*, 328 U.S. 781. The district court erred in concluding that the concerted acts of Singer and Gegauf did not constitute a combination and conspiracy in restraint of trade because of the arms-length character of each separate transaction. Singer and Gegauf conspired together by pursuing a common exclusionary purpose through concerted acts whenever the opportunity for such action presented itself. *Direct Sales Co.* v. *United States*, 319 U.S. 703. Moreover, the agreement to assign the Gegauf patent applications—which was made possible by the common purpose of excluding the Japanese and was intended to increase the power of Singer to accomplish this result for the benefit of both—was in itself a combination and conspiracy in restraint of trade.

II

The provision in the cross-licensing agreement between Singer and Gegauf by which each undertook to facilitate the allowance to the other of the broadest possible patent claims not only was an integral part of the illegal combination and conspiracy but itself violated Section 1 of the Sherman Act. This agreement was made in contemplation of the anticipated

interference proceeding between the Singer and Gegauf patents, and the parties undertook not to oppose each other in such proceeding.

The basic purpose of an interference proceeding before the Patent Office is to determine priority between competing claims to the same invention. The junior applicant may not only attempt to show that his invention was actually first in time, but may also attack the patentability of the invention sought by the senior applicant, or seek to narrow his claims. Since interference proceedings are one of the few phases of Patent Office procedure which are contested rather than *ex parte*, the development in such proceedings of all facts bearing upon the validity and scope of the claims sought provides an important check upon the granting of invalid patent monopolies.

When Singer entered into the agreement with Gegauf, it was aware that "no one party can or will corner the broadest patent protection" (GX 16, R. 1044), and the parties undertook to facilitate the allowance of each other's broadest possible claims in order more effectively to "fight against this Japanese competition" (GX 24, R. 1062). Singer and Gegauf each would have had a valid commercial reason for attempting to narrow the other's claims and, had it not been for this agreement, each independently might have attempted to do so. The concerted action of Singer and Gegauf to help each other in obtaining broad patents for use against their common enemy, the lower-priced Japanese machines, constituted an unreasonable restraint of trade.

ARGUMENT

I

SINGER AND GEGAUF COMBINED AND CONSPIRED TO RESTRAIN TRADE BY EXCLUDING THEIR JAPANESE COMPETITORS FROM THE UNITED STATES IN VIOLATION OF SECTION 1 OF THE SHERMAN ACT

While the owner of a lawfully acquired patent may use it to exclude his own competitors he may not agree with another patent owner that neither will license a particular competitor or class of competitors. As Judge Rifkind stated in *United States* v. *National Lead Co.*, 63 F. Supp. 513, 524 (S.D.N.Y.), affirmed, 332 U.S. 319: "where there is a refusal to license * * * which is the product of agreement or conspiracy, on the part of the owners of competing patents, I believe, the law is offended to the same extent as the law is violated when several combine and agree not to do business with a particular customer or class of customers." See also, *Interstate Circuit* v. *United States*, 306 U.S. 208, 231, applying a similar rule where the restraint was on trade in copyrighted motion pictures; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 455–456, affirming 27 F. Supp. 959, 965–966 (S.D.N.Y.). In the present case the owners of competing patents, Singer and Gegauf, engaged in a course of concerted conduct that—although not involving specific agreements to refuse to license competitors—was intended to further their joint purpose of excluding their common competitors, the Japanese, from the United States

market for automatic zigzag sewing machines. It is our contention that such concerted efforts to exclude common competitors are not protected by the patent laws and are prohibited by the Sherman Act whether or not they involve a specific agreement to refuse to license the competitors.

The district court did not hold that a combination or conspiracy between Singer and Gegauf to help each other use their competing patents to exclude the Japanese would be legal. It held only that there was no such combination or conspiracy as is required for a violation of Section 1 of the Sherman Act because the only agreements between Singer and Gegauf were the three it had found: a cross-licensing agreement, an assignment agreement, and an agreement in aid of Singer's Tariff Commission proceeding. We do not contend that there was any agreement, express or implied, in addition to these three agreements found by the district court. And we accept the district court's findings as to the motivations of Singer and Gegauf in entering into each agreement. We submit, however, that the district court applied a plainly erroneous standard of law in holding that repeated joint action motivated by a common purpose to exclude competitors, such as the district court itself found in this case, does not constitute a combination or conspiracy in restraint of trade forbidden by Section 1 of the Sherman Act. We believe that this question is solely one of law.

We shall first review the extent and nature of the concerted actions of Singer and Gegauf as stated in

the findings of the district court and, occasionally, supplemented by undisputed documents of record. We shall then show that such joint action violates Section 1 of the Sherman Act as a matter of law.

A. SINGER AND GEGAUF AGREED UPON CONCERTED ACTS INTENDED TO ENABLE ONE OR BOTH OF THEM TO EXCLUDE THEIR JAPANESE COMPETITION FROM THE UNITED STATES MARKET FOR THEIR MUTUAL BENEFIT

1. *The background of the Singer-Gegauf relationship*

The background of the Singer-Gegauf transactions has been detailed in the Statement above and in the district court's opinion. Long before Singer began marketing an automatic multi-cam zigzag sewing machine in the United States in 1956 and 1957, although after Singer's employees had designed the Singer "319" and "401" machines, both the Japanese and the Italians entered this field commercially. In September 1953 the Italian firm of Vigorelli introduced into the United States a multi-cam sewing machine, the basic idea of which was the same as that involved in the later-marketed Singer "319" and "401" designs. In September 1954, Brother introduced a Japanese multi-cam machine which, like the later-marketed Singer "401," incorporated the basic idea of many multi-cam machines—a cam follower that could be engaged with any one of a number of rotary cams.

Singer correctly suspected that at least some of its competitors had invented and applied for patents upon the basic mechanism of the automatic multi-cam machine before it. Singer therefore began a

careful and extensive investigation of the filings of competitive patents and applications throughout the world, and soon found that the Italian firm, Vigorelli, had obtained an Italian patent on the basic idea of both the Singer "319" and "401" in January 1953, before Singer had even designed or invented its competitive machines. Singer initially responded to this threat by purchasing for $8,000, through dummy intermediaries, a still earlier patent it had found in its investigations, which belonged to a Canadian inventor named Harris. Singer had reason to believe that if it could have this purchased patent reissued in a broader form, as it later did, it might have the power to exclude even those competitors who had invented and marketed the basic idea of the automatic multi-cam machine long before Singer. But Singer was unsure of whether its broadened claims for the Harris patent would relate back to the date Harris obtained the patent and thus dominate Vigorelli's claims, and so it entered into a cross-licensing agreement with Vigorelli.

2. *The Singer-Gegauf cross-licensing agreement*

Against this background Singer's continuing relationship with Gegauf began. In January 1956 Singer learned that Gegauf had filed a United States application which Singer feared would dominate every patent Singer owned or had applied for (including the purchased Harris patent) as well as the Vigorelli patent. Singer was once again placed on that parity with its Japanese competitors which it had attempted to escape by purchasing the Harris

patent; both were in danger of being excluded as infringers by Gegauf. It therefore began negotiating with Gegauf for an agreement that would serve the twofold end of insuring it against exclusion and obtaining the exclusion of its Japanese competitors as infringers either of Gegauf I (hereafter called the Gegauf application or patent) or of its own Harris patent. The district court thus found that Singer had two purposes in negotiating with Gegauf in 1956. Its "underlying, dominant and sole purpose" (Op., R. 1683–1684):

> * * * was to settle the conflict in priority between the Gegauf and Harris patents and to secure for Singer a license right under the earlier patent in order to free the marketing of its "401" and "319" machines in various countries, particularly in the United States where enforcement of the Gegauf patent might very easily have foreclosed the market to Singer. As to this Singer had much to lose for Singer had spent considerable money developing these machines.
>
> And, we find that Singer had a secondary purpose; it was the only one disclosed to Gegauf, and in fact the very one used to convince Gegauf of the advisability of entering into an agreement. It was Singer's desire to obtain protection against the Japanese machines which might be made under the Gegauf patent; this sprang from a fear which Singer had good reason to believe to be well founded.

We acknowledge that the first purpose was entirely legitimate and that a simple agreement between Gegauf and Singer to cross-license each other would

have been a valid step in fulfillment of that purpose. However, the Sherman Act forbids effectuation of the second purpose—to facilitate by cooperative conduct the exclusion of competitive Japanese machines falling within the scope of the Gegauf patent application. The Sherman Act does not permit competitors to take concerted action to exclude their common competitors. This plainly was both the purpose and the intended effect of that part of the cross-licensing agreement which involved promises that each would help the other obtain patent grants as broad as possible.

During negotiations for the cross-licensing agreement Gegauf informed Singer that it feared competition in the United States from the "lower priced" Japanese machines (Op., R. 1680). Singer did nothing to dispel this fear because "protection against the Japanese" was "one of the strong points" in favor of reaching an agreement (*ibid.*). It informed Gegauf it "could knock out" Gegauf's claims in the United States and elsewhere but that "in so doing" both of them "were probably going to [be] hurt" (GX 24, R. 1063–1064). Singer played upon "Gegauf's big fear" of competition in the United States from lower priced Japanese machines and urged, as "one of the strong points of [its] argument" for the license agreement between the two companies, the necessity of being able "to fight against this Japanese competition in their building a machine that in any way reads on the patents of [Singer] and of Bernina [Gegauf] which are in conflict" (GX 24, R. 1062).

The license agreement of April 14, 1956, between Gegauf and Singer (GX 26 (S–3), R. 1066–1068)

reflects the fruits of the mutual purpose of both parties to strengthen and broaden each of their patents so that at least one of them could exclude the Japanese competitors. The agreement contained six operative paragraphs. Paragraphs 2 and 3 constitute the cross-licensing agreement proper: in form, an agreement not to attack the other company on the basis of a number of listed patents and applications. In paragraph 4, Singer agreed not to make a "slavish" copy of Gegauf's sewing machine and, in paragraph 5, Singer agreed to give Gegauf "the amical assistance of its patent attorneys for the defense of any of the above mentioned Gegauf patents or patent applications against an action in cancellation" (*ibid.*). Paragraph 6 contained a promise to disclose any other agreements concerning the enumerated patents or applications (*ibid.*). None of these provisions in any way served significantly to further what the district court found to be Singer's secondary purpose and "the very one used to convince Gegauf of the advisability of entering into an agreement": "Singer's desire to obtain protection against the Japanese machines which might be made under the Gegauf patent." This common purpose of Gegauf and Singer was plainly intended to be effectuated by paragraph 1, the only remaining operative provision of the agreement.

Both Singer and Gegauf were aware that any conflict between them as to the validity or scope of each other's patents might result in the narrowing or invalidation of these patents to the principal benefit of their Japanese competitors. Claiming to be able

"to knock out" Gegauf's claims, Singer had pointed out to Gegauf that this would only hurt both of them. In the first sentence of paragraph 1, the parties agreed "not to do anything, either directly or indirectly and in any country, the result of which might restrict the scope of the claims of the other party relating to the subject matter of the above mentioned patents and patent applications" (GX 26, R. 1067). The second sentence in paragraph 1 stated that "each undertakes in accordance with the laws and regulations of the Patent Office concerned, to facilitate the allowance in any country of claims as broad as possible, as regards the subject matter of the patents and patent applications referred to above" (*ibid.*). We refer to the second sentence alone, for it was this provision that the district court found was intended to apply to patent proceedings in the United States. The relationship of this provision of the agreement to the shared purpose of excluding the Japanese which, the district court found, Singer used to convince Gegauf to enter into the entire agreement is plain: paragraph 1 of the cross-licensing agreement was intended to make certain that either Singer or Gegauf or both would obtain a patent broad enough to prevent further importations from Japan. It was, moreover, pointedly given effect by Singer in the Fall of 1956 and the Spring of 1957 when Singer abandoned an interference proceeding the United States Patent Office had declared between Singer's Harris application and the Gegauf application after calling to Gegauf's attention that it (Singer) was acting pursuant to their

license agreement so that the prevailing party could secure a patent (Op., R. 1686).

The affirmative undertaking by Singer and Gegauf "to facilitate the allowance in any country of claims as broad as possible" constituted an agreement between two competitors to combine their activities before the United States Patent Office in order to secure from that office patent claims broad enough to eliminate mutual competitors. As we shall show in Point II below, such an agreement, even though the parties effect their purpose without transgressing the specific rules of the Patent Office, is itself a violation of Section 1 of the Sherman Act. It was not, however, the end of the cooperative efforts of Singer and Gegauf to eliminate their joint competitors, the Japanese.

3. *The transfer to Singer of the Gegauf patent*

Although immediately after signing the first Singer-Gegauf agreement in April 1956 Singer had declined an invitation from Vigorelli to act in concert with that firm and Gegauf against joint competitors, and had explained its view that the best thing was "for each one to prosecute his own patents and take care of any cases of infringement that might appear" (Op., R. 1684), Singer very soon came to believe that there was reason for Gegauf and itself both to be dissatisfied with the protection they were receiving against their Japanese competitors. At Singer's request, within two months of the conclusion of the first Singer-Gegauf agreement, Vigorelli undertook to convince Gegauf of the desirability of assigning its

application to Singer "for broader protection in the United States by Singer's invoking the Harris and Gegauf patents" (Op., R. 1685–1686). Vigorelli threatened Gegauf that its German patent might be invalidated by a United States patent that Vigorelli would bring to light unless Gegauf agreed to the assignment (*ibid.*).

The district court's opinion makes absolutely clear that no one had any doubts as to who was the common enemy whose competitive threat must be met by shifting the strongest patent, embodied in the Gegauf application, to the hands of the company best able to enforce it, Singer. Having been approached by Singer directly in August 1956, Gegauf wrote Singer in September "favoring the idea of doing something 'against Japanese competition' in the United States. Singer replied that an arrangement could be reached 'equally advantageous to both' * * *" (Op., R. 1686). Negotiations were suspended for a year, then resumed in September 1957 at which time Singer's representative, Waterman, approached Gegauf and, as the opinion below notes, pointed out that since their respective patents "were about to issue, their mutual interests required that something be done to protect themselves from the Japanese infringing machines. Waterman also, quite correctly, pointed out that, under their license agreement, neither was in a position alone effectively to protect its respective patent" (Op., R. 1686–1687). Bargaining over price was apparently severe. Gegauf, which originally had asked far more for its

patent,[17] was induced to sell for $90,000 by Singer's arguments as to the anticompetitive benefits to Gegauf of transferring to Singer the right to enforce the patent. "Singer continued 'to drive home the point' that Gegauf stood to benefit more by enforcement of the patents in the United States because the 'Brother Pacesetter' machine, a big selling and patent infringing Japanese-made machine, was in direct competition with the Gegauf machine, for both machines were of the free arm type" (Op., R. 1692). Throughout these negotiations Gegauf understood that the central purpose of a second agreement with Singer was "to stop as far as possible Japanese competitors in the United States market" (Op., R. 1689), although Gegauf's primary interest in its result arose from Gegauf's anticipation that this would discourage Japanese competition in Europe.

At long last, in the words of the district court, Singer's repeated appeals to Gegauf's interest in facilitating the exclusion of the Japanese "apparently reached home" (Op., R. 1692) and the parties arrived at an agreement the primary purpose and effect of which was to shift the power of enforcing the patent to the party better able to undertake this task, Singer. The predominance of this purpose is made clear by the absence of other significant effects. In place of

[17] Gegauf assigned its patent rights to Singer for only $90,000 despite its belief that by granting additional licenses thereunder it could gross "many times more" than $125,000 per year (Stip. ¶79, R. 50). From the one license Singer granted under the Gegauf patents to Sears Roebuck Company it received $192,330 in royalties in two years (Op., R. 1706), more than double the purchase price.

Singer's being licensed under a patent owned by Gegauf, it was now agreed that Gegauf would be licensed under the same patent owned by Singer. Singer, the district court found (Op., R. 1714), never intended to issue any additional licenses under the Gegauf patent, so its sole purpose and achievement in obtaining the patent was the acquisition of power to exclude its long-time competitors from Japan. It is true that Gegauf gave up the power to license other companies to sell within the United States, but even this change in position was minimized by the retention of a power, in effect, to sub-license Vigorelli of Italy and Pfaff, a German firm. The substance of the second Singer-Gegauf transaction corresponded closely to its sole purpose. It enabled Singer—the best qualified of Singer, Gegauf, and Vigorelli—to enforce the strongest patent, Gegauf's, against the common threat, the Japanese.

4. *Singer's enforcement of the Gegauf patent*

Singer did not delay in giving effect to the above purpose. When the Gegauf patent issued, Singer filed two infringement actions against Brother, the largest domestic importer of Japanese machines, based on the Gegauf I, Harris reissue, and Johnson patents (Stip. ¶ 82(1), R. 54). It also instituted actions based on the above patents against two other distributors of Japanese multi-cams, which terminated in consent judgments in its favor (Stip. ¶ 82(2), 82(3), R. 54, 55). In addition, Singer brought a proceeding before the United States Tariff Commission, under 19 U.S.C. 1337, for the purpose of obtaining an order excluding

from the United States all imported machines coming within the claims of the Gegauf patent (Stip. ¶ 82 (4), R. 55).[18]

Although there is no evidence that the parties discussed these advantages prior to the transfer of the Gegauf patent, the Tariff Commission proceedings demonstrate the exceptional benefits to Singer and Gegauf which resulted from transferring to Singer the power of enforcing the Gegauf patent. These proceedings, which would eliminate all imports infringing the Gegauf patent at one stroke, could be brought only by an American manufacturer[19] and there is authority[20] that in such proceedings the validity of the Gegauf patent (which Singer had earlier agreed not to question before the Patent Office) is not subject to challenge by the excluded parties. The joint benefits of the tariff proceeding must have become apparent at least while the proceeding was in progress. The continuing cooperation of Singer and Gegauf to exclude their Japanese competitors was then demonstrated when Singer and Gegauf agreed to amend the terms of the last Singer-Gegauf agreement, eliminating Gegauf's right to sublicense Pfaff under the Singer-owned Gegauf patent, in order to

[18] The latter action and the two suits against Brother are presently pending (Op., R. 1707, 1711).

[19] Actions under Section 337 must be brought to prevent unfair competition the effect of which is substantially to injure an industry "efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain and monopolize trade and commerce in the United States" (19 U.S.C. 1337(a)).

[20] *In re Von Clemm*, 229 F. 2d 441 (C.C. P.A.); *In re Orion Co.*, 71 F. 2d 458 (C.C. P.A.).

give Singer "a better chance of prevailing before the Tariff Commission." (Op., R. 1709.)

B. AGREEMENTS AMONG HOLDERS OF COMPETING PATENTS TO ACT TOGETHER SO AS TO EXCLUDE COMMON COMPETITORS VIOLATE THE SHERMAN ACT

We believe that both the record and the district court opinion make entirely clear that Singer and Gegauf, motivated by a common desire to exclude their Japanese competitors from the United States, discussed and agreed upon concerted acts which could best effectuate this mutual purpose—first by broadening their individual powers of exclusion and then by shifting Gegauf's United States application to Singer, which was better situated to enforce it against the Japanese. The district court's decision was in no way bottomed on a view of the facts different from that we have just stated.

The Sherman Act prohibits the holders of competing patents not only from agreeing together to refuse to license common competitors but also from acting in concert for the explicitly and repeatedly stated purpose of increasing the power of one or of each individually to exclude common competitors. The Sherman Act is premised upon the belief that competition is best protected by requiring each seller to compete without the assistance of any other seller in the commercial struggle against competitors of both. Survival of a sufficient number of competitors and thus of competition itself depends upon requiring competition to be conducted on an individual basis. The combined powers of two competitors directed at excluding a third from any market poses an intolerable threat to the maintenance of competition.

The Court has already made clear that the antitrust laws severely limit the concerted activities in which patentees may engage. See *e.g., United States v. United States Gypsum Co.*, 333 U.S. 364; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436; *Standard Sanitary Mfg. Co.* v. *United States*, 226 U.S. 20. In *Standard Oil Co.* v. *United States*, 283 U.S. 163, where the government challenged the legality of a pool of patents[11] covering oil cracking processes, Mr. Justice Brandeis, writing for the Court, noted the general rule that "[w]here domination exists, a pooling of competing process patents * * * is beyond the privileges conferred by the patents and constitutes a violation of the Sherman Act. The lawful individual monopolies granted by the patent statutes cannot be unitedly exercised to restrain competition" (*id.* at 174). He held that a violation had not been established, however, because the agreements in question did not restrict the granting of licenses to non-participants in the pool (283 U.S. at 170, 176 and fn. 12), and the "*available advantages are open on reasonable terms to all manufacturers desiring to participate*" (*id.* at 171, emphasis added). Finding that "the four primary defendants owned or licensed, in the aggregate, only 55% of the total cracking capacity, and the remainder was distributed among twenty-one independently owned cracking processes" (*id.* at 175), the Court concluded that the challenged agreements did not result in monopoly, or a restriction of competition,

[11] "The words 'patent pool' are not words of art." *United States* v. *Line Material Co.*, 333 U.S. 287, 313, fn. 24. Here, as in *Line Material*, *supra*, the expression is used "to convey the idea of a linking of the right to use patents issued to more than one patentee."

in the business of licensing the patented cracking processes or in the production or sale of cracked gasoline (283 U.S. at 175–179). In sum, the Court there found that a patent pool was saved from illegality because there was neither dominance of the industry by the participants nor an intention to exclude. Here, in contrast, the Singer-Gegauf combination involves both dominance and a plain purpose to exclude. See *United States* v. *Line Material Co.*, 333 U.S. 287, 313, where the Court interpreted the Standard Oil decision as holding that a patent pool is illegal "if a purpose or plan to monopolize or restrain trade is found."

The illegality of this combination would be clear even in a case not involving the great exclusionary power of broad patents. Thus this Court indicated in *American Tobacco Co.* v. *United States*, 328 U.S. 781, 803–804, that it was unlawful for the three largest cigarette manufacturers, which were in competition with lower priced brands, to join in buying up cheaper tobacco leaves than they themselves would use for the purpose of raising "the price of such tobacco to such a point that cigarettes made therefrom could not be sold at a sufficiently low price to compete with the petitioners' more highly advertised brands." Similarly, two department stores expanding into suburban shopping centers could not agree together to help each other find and occupy suburban locations for the purpose of keeping those locations out of the hands of a third, price-cutting competitor. Nor could they, upon finding their original effort inadequate, agree to transfer a particular location from one to the other for the purpose of placing the stronger competitor in a position to eliminate the

competition of their common threat, the price-cutting third competitor. Nothing in the patent laws gives Singer and Gegauf any greater right to cooperate in their efforts to exclude the Japanese, for such cooperation was in no sense a necessary part of their agreements to reconcile their competing patent claims.

Neither Singer nor Gegauf could have effectively excluded their Japanese competitors under the Gegauf patent without the continuing cooperation of the other. First, the Gegauf patent itself might have been narrowed or invalidated had Singer not agreed to refrain from attacking it and to facilitate the allowance in the United States of claims "as broad as possible." Singer itself indicated that it could defeat the Gegauf application, although both would be hurt by such action (Op., R. 1680). Second, Gegauf could not have excluded the Japanese effectively under the United States patent that would issue on its application. Tens of thousands of Japanese multi-cam machines were sold in the United States each year and only Singer could and would effectively eliminate this competition. The Tariff Commission proceedings, which could be brought only by Singer, furnish an example of Singer's advantage in this regard. The cooperative transfer to Singer of the enforcement powers under the Gegauf patent, at a bargain price and for a joint, exclusionary purpose, was thus necessary to eliminate the Japanese competition. Third, Singer obviously thought that its most effective exclusionary weapon, the Tariff Commission proceedings, depended in part upon Gegauf's cooperation, since it asked Gegauf for and obtained a change in their prior assignment agreement for this common purpose. Section 1 of

the Sherman Act protects competitors and thus competition from the force and effects of such cooperative, exclusionary conduct by other competitors. The Sherman Act contemplates that each competitor will compete with the economic or legal weapons at his own disposal; it prohibits such a combination of powers, wills, and imaginations as Singer and Gegauf created in this case and brought to bear on the task of excluding the Japanese.

Moreover the continuing dealings between Singer and Gegauf necessarily limited the freedom of each to license the Japanese if this came to be viewed as desirable. The district court found that Singer and Gegauf never agreed not to license the Japanese. But every transaction between Singer and Gegauf was infused with a common exclusionary purpose which, while perhaps not amounting to an agreement, made vastly more difficult the path of any Japanese competitor that might seek a license under the Gegauf patent. After the Singer-Gegauf cross-licensing agreement (into which, the district court found, Gegauf was induced to enter by Singer's demonstrations of the desirability to both of excluding the Japanese), Gegauf could not have proceeded to license the Japanese without considering and giving weight to the consistency of any such action with the spirit of its prior arrangements with Singer. An even greater impediment to an individual decision to license the Japanese must necessarily have arisen from the second Singer-Gegauf agreement transferring the Gegauf application to Singer. As the district court carefully pointed out, Singer's primary bargaining

argument to reduce the price Gegauf would charge, and even to interest Gegauf in the transfer at all, was its ability and willingness to use the Gegauf patent to exclude the Japanese. Singer could not, consistently with the expectations it had purposely engendered in Gegauf, then turn and license the Japanese without the consent of Gegauf. Moreover, the district court expressly found that Singer "did not intend to license others under its patent" (Op., R. 1714).

A course of concerted conduct infused with the expectation that neither of two owners of competing patents will license competitors of both is itself incompatible with the Sherman Act. In this context it is immaterial that the parties did not formally agree not to license the Japanese under their patents. In *Eastern States Lumber Ass'n* v. *United States*, 234 U.S. 600, this Court struck down a combination of retailers intended to prevent the members from purchasing from wholesalers who competed with them at retail. The Court there held (234 U.S. at 608–609):

> True it is that there is no agreement among the retailers to refrain from dealing with listed wholesalers, nor is there any penalty annexed for the failure so to do, but he is blind indeed who does not see the purpose in the predetermined and periodical circulation of this report to put the ban upon wholesale dealers whose names appear in the list of unfair dealers trying by methods obnoxious to the retail dealers to supply the trade which they regard as their own * * *[22]

Here, too, one would have to blink the obvious to fail

[22] See also *United States* v. *Masonite Corp.*, 316 U.S. 265, 274–276, and *Interstate Circuit* v. *United States*, 306 U.S. 208.

to recognize the additional impediment that each of the Singer-Gegauf transactions imposed in the path of any hope the Japanese may have had to be licensed by either Singer or Gegauf.

The court below held that no conspiracy or combination could be found because, throughout their dealings, the attitude of both Singer and Gegauf was one of "suspicion, wariness and self-preservation"; Singer's ultimate concern was with Japanese competition in the United States, while Gegauf was primarily seeking protection from Japanese competition in Europe; "[n]either party was eager for the agreement finally made"; and each was determined to put into the arrangement no more than was absolutely necessary (Op., R. 1693, 1694). It has long since been settled, however, that such considerations as these do not bar a finding of conspiracy or combination in violation of Section 1 of the Sherman Act. In *United States* v. *General Electric Co.*, 80 F. Supp. 989 (S.D.N.Y.), the district court found a criminal conspiracy in violation of the Act despite findings that relations between the conspirators "were uncongenial from the very start"; the conspirators' "interests clashed in some respects"; and they knew their agreements "would not be maintained to the letter" (80 F. Supp. at 996, 997, 998). In *United States* v. *Line Material Co.*, 333 U.S. 287, this Court reversed a district court holding (64 F. Supp. 970, 976–977 (E.D. Wis.)) that the government failed to prove a combination and conspiracy to fix prices through patent licenses. The Court rested its decision on the concert of action manifested in the price-fixing provisions of the license agreements (333 U.S. at 306),

and reversed the district court despite findings that (*id.* at 297):

> The licenses were the result of arm's length bargaining in each instance. Price limitation was actively opposed *in toto* or restriction of its scope sought by several of the licensees * * *. A number tried energetically to find substitutes for the [patented] devices. All the licensees, however, were forced to accept the terms or cease manufacture. * * *

Similarly, in *United States* v. *Masonite Corp.*, 316 U.S. 265, reversing 40 F. Supp. 852 (S.D. N.Y.), the Court found a combination to fix prices by means of patent licenses even though various defendants were attempting to discover and produce a competitive non-infringing product, and many actually had distributed competitive products. The latter considerations were deemed "not controlling" and the Court rested its decision on the concerted action to fix prices (316 U.S. at 280–281).

In light of these decisions there can be little doubt that the concerted activities and agreements of Singer and Gegauf amounted to a combination and conspiracy to exclude the Japanese in violation of the Sherman Act. Singer and Gegauf did not merely meet once to offer and accept the terms of a single contract. They were not uninterested in each other's purposes aside from the specific terms demanded by the other in a particular transaction. It is clear that they have long been aware of a common competitive threat and this awareness has maintained their interest in concerted action over a period of years. They have acted together for the same exclusionary purpose on a number of occasions and they have, over

a prolonged period, maintained open channels of communication so that they could respond together whenever joint action against the Japanese appeared appropriate.[23] Such a sustained willingness to cooperate to exclude a common competitor—punctuated by periodic concerted acts to further the agreed-upon end—is the plainest proof of a conspiracy and illegal combination to restrain trade, whether or not the parties have ever formally agreed to cooperate with each other on a continuing basis. See *United States* v. *Parke, Davis & Co.*, 362 U.S. 29, 44; *cf. Direct Sales Co.* v. *United States*, 319 U.S. 703, where this Court held that a conspiracy existed between a drug manufacturer and a doctor who sold narcotics illegally, although the only agreements between the two were those involved in the individual sale of drugs by the manufacturer to the doctor.

Furthermore, the agreement assigning the Gegauf patent to Singer itself constituted a combination and conspiracy in restraint of trade. The district court laid stress upon the conclusion that Singer, after acquiring the Gegauf applications, was free to take whatever course it chose as to the use it would make of them. Thus, the court found that there was "no agreement * * * or understanding * * * with respect to the licensing, enforcing or use of their patents" (Op., R. 1693). And "throughout, their dealings were characterized by an absence of unity or identity of any common purpose or motive", because Singer's main fear was Japanese competition in the United

[23] Thus, for example, Singer could count on Gegauf to assist it in the tariff proceeding.

States, while Gegauf's main fear was Japanese competition in Europe (*ibid.*). But in the circumstances their would have been no reason for Gegauf to have insisted upon a promise as to what Singer would do with Gegauf's United States patent. Gegauf was transferring its patent rights to the United States, the very place where it knew Singer had a stronger motive to exclude the Japanese than Gegauf had. Singer and Gegauf debated only what would happen *after* Singer excluded the Japanese from the American market.

For the same reason, the court's finding that the parties' motives were different misses the point. The difference arose only as to the reasons why Japanese competitors were to be attacked, and in what country the effects of such an attack would be felt. But the common purpose was clearly present: to cripple Japanese competitors. When Gegauf became convinced that crippling the Japanese in the United States would help it in Europe, it became willing to sell to Singer, but only because it was so convinced. Gegauf was not worried about Singer's future course of action because it knew Singer had a greater motive to keep the Japanese out of the United States than it had. Singer and Gegauf were competitors; both wanted to hurt the Japanese; Singer induced Gegauf to transfer to Singer patent properties for the shared purpose of using them to hurt their common competitor. This is a conspiracy and combination in the plainest sense.

It makes no difference that the transferred property was a patent application and thus carried with it a potentiality of lawful exclusion. Even though one patentee may acquire additional patents by purchase in

the open market, and thus enhance his power of exclusion, competitors may not transfer the ownership of patents for the purpose of combining such properties in the hands able to bring the power of exclusion most heavily to bear upon other competitors. Cf. *United States* v. *Besser Manufacturing Co.*, 96 F. Supp. 304, 311 (E.D. Mich.), affirmed, 343 U.S. 444; *United States* v. *Krasnov*, 143 F. Supp. 184, 199 (E.D. Pa.), affirmed *per curiam*, 355 U.S. 5. This is not a restraint upon a patentee's power to sell his patent to the highest bidder, thus to maximize his financial reward. On the contrary, it is a restraint upon combined action of competitors aimed at excluding others—an activity traditionally outlawed by the Sherman Act. The facts of this case make the point quite clearly: Singer talked down the selling price asked by Gegauf for the patent by pointing out its usefulness in Singer's hands as a weapon against the Japanese.

II

THE AGREEMENT BETWEEN SINGER AND GEGAUF TO FACILITATE THE ISSUANCE TO EACH OTHER OF THE BROADEST POSSIBLE PATENT CLAIMS VIOLATED SECTION 1 OF THE SHERMAN ACT

The 1956 cross-licensing agreement, after reciting that "Singer and Gegauf realize that interference proceedings are about to be opened in the U.S.A. between the said Harris reissue application and one or more patent applications of Gegauf" (GX 26(S-3), R. 1066), provided in Paragraph 1 (R. 1067):

> Singer and Gegauf each undertakes not to do anything, either directly or indirectly and in any country, the result of which might restrict

the scope of the claims of the other party relating to the subject matter of the above mentioned patents and patent applications.

Singer and Gegauf each undertakes, in accordance with the laws and regulations of the Patent Office concerned, to facilitate the allowance in any country of claims as broad as possible, as regards the subject matter of the patents and patent applications referred to above.

In a contemporaneous report describing the agreement Stanford, the head of Singer's patent department, explained that Paragraph 1 states that "as to patent matters throughout the world * * * we will not oppose their applications and that we will do all we can to facilitate the allowance" (DX 31, R. 1414).

Since the cross-licensing agreement stated (GX 26 (S–3), R. 1066) that it was made "[i]n view of" the parties' "realiz[ation] that interference proceedings are about to be opened in the U.S.A." between the Harris and Gegauf patent applications, the plain intent of Paragraph 1 was to provide for the settlement of such proceedings. Indeed, Stanford's report so acknowledged. He stated that "the sum and substance" of the second sentence of Paragraph 1, by which each party undertook to facilitate the allowance of the broadest possible claims by the other, "is that whichever party is entitled to the claim, in accordance with the laws and regulations of the United States Patent Office, will receive the claims"; and that, "if Gegauf has filed first, and we know as a matter of fact that Harris could not push his date back of his filing date, then Gegauf would be entitled to the claim which has been

suggested to them, or which will be suggested to them when the interference is actually declared" (DX 31, R. 1414). In short, Singer and Gegauf, each in undertaking to facilitate the allowance of the broadest possible claims by the other, obligated themselves not to oppose each other in the anticipated interference proceedings before the Patent Office.

Four months after the agreement was signed, the Patent Office in August 1956 placed the Singer and Gegauf patents in interference (Stip. ¶ 68, R. 46). "[P]ursuant to this agreement, the interference * * * was settled" (GX 44, R. 1090) when Singer abandoned the proceeding in March 1957 (Stip. ¶ 71, R. 47). The Gegauf patent issued on April 29, 1958 (Stip. ¶ 106, R. 61).

The district court held that the first paragraph of the cross-licensing agreement was legal (Op., R. 1681). It ruled (*ibid.*) that the first sentence did not apply to the United States; and that in the second sentence, by which Singer and Gegauf undertook to facilitate the allowance of the broadest possible patent claims by the other,

> although the parties speak of "any country" the only place where such a provision was significant (at least as far as Singer was concerned) was in the United States where Singer knew Gegauf's application preceded Singer's Harris patent and reissue patent and where it felt sure Gegauf would be awarded the claim as filed. In effect, all that Singer agreed to do was not to attempt to obstruct what it had no power to prevent and what in fact it knew Gegauf would eventually be awarded under the

> United States laws on the ground of priority. There was nothing illegal in this. We know of no rule of law which would make such abstention under the circumstances here illegal; and this is so even if Singer could have blocked the issuance of the United States patent to Gegauf.

The court further ruled (Op., R. 1712) that "even assuming, for the sake of discussion, that such provisions were illegal, no acts were done pursuant to this agreement and the claim of Gegauf I was concededly valid." [24]

While we think that far stronger evidence than this record contains would be necessary to justify altering the unambiguous language of a written contract to give the words "in any country" different meaning in the two sentences of the first paragraph,[25]

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[24] The stipulation as to the validity of Gegauf I states that "[t]he Government for purposes of this suit does not dispute the validity of the claims of the [Gegauf I patent], as issued" (Stip. ¶ 93, R. 58). The same stipulation expressly provides, however, that "[n]othing herein shall preclude the Government from offering evidence * * * of agreements made, if any, and circumstances relating thereto, between Singer and the alleged co-conspirators relating to cooperation in the acquiring of grants of patent claims" (*ibid.*).

[25] Indeed, the contemporaneous memorandum by Stanford indicates that both sentences had the same geographical scope. For after discussing and explaining each of the sentences separately, he concluded (DX 31, R. 1414):

"So, Paragraph 1 contains nothing that could be construed as any collusion on the part of either Singer or Gegauf as to patent matters throughout the world. It simply states that we will not oppose their applications and that we will do all we can to facilitate the allowance. * * *"

The theory of the district court's ruling was that the words "in any country" in the first sentence were "interpreted and intended" to apply to foreign countries where "nullity and in-

we are not directly challenging the district court's ruling that only the second sentence applies to the United States. For the two sentences merely provide reciprocal aspects of the same basic obligation. When Singer and Gegauf agreed to facilitate the allowance of the broadest possible patent claims to each other, they necessarily also agreed "not to do anything * * * which might restrict the scope of the claims of the other" before the Patent Office. In other words, it is immaterial whether the first sentence applies to the United States, because even if it does not, the second sentence nevertheless obligated Singer and Gegauf not to oppose each other in the anticipated interference proceedings before the Patent Office.

The district court erred in ruling that the agreement between Gegauf and Singer to facilitate the issuance of the broadest patent claims to each other was not illegal. Not only was this agreement an integral part of the illegal combination and conspiracy discussed above, but it itself violated Section 1 of the Sherman Act. The district court correctly recognized (Op., R. 1712) that Singer and Gegauf, each acting individually and exercising its own independent judgment, could refrain from opposing each other's claims

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validation" proceedings were known; and that such proceedings are not available in the United States (Op., R. 1681). But when Singer wished to limit the geographical scope of agreements not to restrict the scope of competing claims to those countries which had "opposition, nullity or invalidation proceedings," it specifically referred to such proceedings. See its agreements with Vigorelli (GX 11 (S–2), R. 1034) and with Messerschmitt (GS 86 (S–4), R. 1146). Both of these agreements were drafted by the same patent attorney who prepared paragraph 1 of the Gegauf agreement (R. 457, 459, 501).

before the Patent Office. But they could not agree to do so where, as here, the purpose of such agreement was not directly to maximize the return which each hoped to receive from its own patent, but to exclude their mutual competitors, the Japanese.

Prior to developing this argument, however, we shall answer appellee's contention (Motion to Affirm, pp. 32, 39–40) that in the district court the government abandoned its claim that the second sentence of the first paragraph is illegal.

A. THE GOVERNMENT DID NOT ABANDON ITS CONTENTION THAT THE SECOND SENTENCE OF THE FIRST PARAGRAPH IS ILLEGAL

Appellee's argument rests on two statements by the government which, standing alone, do suggest that it was challenging only the first sentence. When these sentences are read in context and in the light of other statements made by the government in the same document, however, it is plain that there was no abandonment of the government's basic claim that both sentences constituted a single agreement, and that both were illegal.[26]

[26] In the government's earlier trial brief, it similarly treated both sentences as comprising the single agreement which it was challenging. Thus, it stated (p. 51; Tr. (unprinted) 3361) that, "[i]n order to be better able to fight Japanese competition, the defendant, Singer, entered into an agreement with Gegauf wherein the parties agreed to facilitate the granting of broad claims to each other and precluded themselves from narrowing each other's claims." It also alleged (p. 57; Tr. (unprinted) 3367) that the agreement was unlawful because Singer and Gegauf "agreed (1) not to take any action in any country, the result of which might restrict the scope of the other's patents, and (2) to facilitate the allowance of the broadest possible claims. Such an agreement is not ancillary to any normal or ordinary licensing agreement * * *."

Both the trial brief and the post-trial brief referred to in

The first statement on which appellee relies was made in the government's post-trial brief. There the government, after noting that the cross-licensing agreement "contains express provisions in which the parties agreed not to do anything which might restrict the scope of the patent claims of each other," pointed out that "[t]his agreement was designed to permit the parties to obtain the broadest patents possible * * *. The provision which is unlawful reads:". This was followed by the quotation of the first sentence (R. 1652).

Other portions of the post-trial brief make it clear, however, that we were attacking the entire first paragraph—both the first and second sentences—and were not limiting our attack to the first sentence. Thus, the summary of the argument at the opening of the brief stated that Singer and Gegauf "entered into a written agreement for the purpose of insuring the granting of the broadest possible patent claims to each other" (p. 3; Tr. (unprinted)). And, in a passage after the excerpt on which appellee relies, we point out that the parties' agreement "to assist each other in obtaining claims as broad as possible" could not be justified as ancillary to the cross-licensing agreement (p. 67; Tr. (unprinted) 6340). Both of these passages use the language of the second sentence, not the first, in describing the provisions which we were attacking. In other places in the brief, we used the language of the first sentence in describing Paragraph 1 (pp. 62, 64; Tr. (unprinted) 6425, 6427). It is therefore

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the text are included in the record certified by the clerk of the district court to this Court.

quite plain that we used the language of both sentences interchangeably in describing the paragraph, and our focussing on the first sentence in a particular passage was not an abandonment of our attack on the second sentence. For we treated the two sentences as complementary undertakings, expressing in different form the parties' agreement not to contest each other's patent applications throughout the world, and both imposing the same substantive obligations of cooperation and assistance.

The second statement was made in the government's memorandum in response to Singer's proposed findings. There, after explaining that the government was not contending that the cross-licensing agreement was unlawful, the government stated that "[t]he only phase" of that agreement which it attacked "is the provision * * * by which the parties agreed not to do anything directly or indirectly, in any country the result of which might restrict the scope of the patent claims of the other party" (R. 1650–1651). The government was merely explaining that it was not attacking the entire cross-licensing agreement, but only the first paragraph; and once again, as in its earlier post-trial brief, it was not attempting to draw any distinction between the first and second sentences.

The district court had no doubt that the government was pressing its attack on the entire first paragraph, and not limiting itself to the first sentence. At the outset of its opinion the court, in describing the acts alleged to have been committed pursuant to the conspiracy, used the language of the second

sentence in summarizing the government's challenge to the first paragraph, *i.e.*, it stated that the government alleged that Singer had entered into separate agreements with Gegauf and Vigorelli "to insure the granting, with respect to specified patents, of the broadest possible patent claims to each other for the purpose of excluding foreign automatic zigzag sewing machines" (Op., R. 1654). And, in its treatment of the substantive issues, the court discussed and ruled upon the legality of both sentences of the first paragraph (Op., R. 1681–1682).

Neither the appellee nor the district court could have been in any way misled or prejudiced by the government's stressing the language of the first sentence in certain portions of its written presentation. The government made it clear in its post-trial brief that it was challenging the validity of both sentences, and the court considered and upheld the validity of both of them. The government concededly did not explicitly waive its attack on the second sentence, and there is no basis in this record for implying such a waiver.

B. THE AGREEMENT TO FACILITATE THE ALLOWANCE OF THE BROADEST POSSIBLE PATENT CLAIMS WAS ILLEGAL

As we have shown, the agreement by Singer and Gegauf each to facilitate the allowance to the other of the broadest possible patent claims was made in anticipation of an expected interference between their patents before the United States Patent Office. It was designed to avoid any contest in such proceeding which might result in narrowing or invalidating each

other's claims. The record shows that these two competitors made such an agreement because they jointly wanted to obtain the broadest possible patent claims to use in eliminating their mutual competitors, the Japanese (see *infra*, pp. 61–63). The nature of interference proceedings before the Patent Office indicates that, had it not been for their common purpose of excluding the Japanese, Singer and Gegauf would have had a motive for limiting each other's claims and, absent this agreement, each might independently have tried to do so. In these circumstances, their agreement not to limit each other's claims unreasonably restrained trade.[27]

1. *The Nature of Interference Proceedings before the Patent Office*

Patent Office proceedings are *ex parte* at almost all stages. The major exception is when an interference is declared between parties claiming rights to the same invention.

The Patent Office's Rules of Practice define an interference as "a proceeding instituted for the purpose of determining the question of priority of invention between two or more parties claiming substantially

[27] The fact that they agreed to act "in accordance with the laws and regulations of the Patent Office concerned" did not validate their undertaking. This provision obviously meant only that, in facilitating the allowance of each other's claims, each would accommodate its activities to the regulations of the patent office of the particular country involved. It has no bearing upon the legality of an agreement among competitors, made for the purpose of excluding a common competitive enemy, to aid each other in obtaining the broadest possible patents.

the same patentable invention [which] may be instituted * * * [between] a plurality of applications or [between] an application and a patent" (37 C.F.R. 1.201(a)). An interference is declared by the primary examiner whenever an application is filed which in his opinion claims substantially the same invention as another pending application or existing patent (35 U.S.C. 135). Before he declares an interference, the primary examiner must make an initial determination that the claim or claims to be set up in interference are allowable in each of the applications involved (37 C.F.R. 1.201(b)), and that the applications or patents containing the interfering claims are not owned by the same party (37 C.F.R. 1.201(c)).[28]

Once an interference is declared each party must file a preliminary statement setting forth certain information relating to the date of invention of his claim. If the statement by the junior party (the one whose application bears a later filing date) fails to overcome the *prima facie* priority of the applicant with the earlier filing date (the senior party),[29] the examiner of interferences will notify the junior party

[28] Ordinarily the wording of the interfering claims must be identical before an interference will be declared, and therefore, where there is a difference in language, the examiner will suggest to the parties "such claims as are necessary to cover the common invention in the same language" (37 C.F.R. 1.203(b)). Failure of a party to amend his application to include a claim suggested by the examiner for interference purposes is considered a disclaimer of the invention covered by the claim (*ibid.*).

[29] The parties to an interference are presumed to have made their inventions in chronological order of the filing dates of their applications, and the burden of proof rests upon the party seeking to establish a different set of facts (37 C.F.R. 1.257).

that within a certain specified time judgment will be rendered against him unless he shows cause why such action should not be taken (37 C.F.R. 1.225).

After the preliminary statements have been filed and approved by the examiner of interferences, various motions may be filed by the parties, including a motion to dissolve the interference on the grounds "that the claims forming the counts of the interference are not patentable, or are not patentable to a particular applicant, while being patentable to another party" (37 C.F.R. 1.232). Such motions are heard by the primary examiner, and if he determines that all or part of the interfering claims are unpatentable, the interference will be dissolved (37 C.F.R. 1.237).

If the interference is not dissolved or suspended, each party may take testimony by deposition (37 C.F.R. 1.251). This is followed by written briefing and oral argument before the Board of Patent Interferences (37 C.F.R. 1.253, 1.254, 1.256). An interference is terminated by a judgment of priority by the Board of Patent Interferences, or by a disclaimer, concession or abandonment of the intereference by one of the parties, which automatically cancels the claims involved from the application of the party making the disclaimer (37 C.F.R. 1.261, 1.262).

In sum, the basic purpose of an interference proceeding is to determine priority between competing claims to the same invention. But a junior applicant may always place in issue the patentability of the interfering claims. Thus, had there been no cross-licensing agreement in the present case, when the anticipated interference between the Singer and Gegauf patents was declared, Singer could have (1)

attempted to establish that, although the Gegauf application had been filed first, Singer in fact had made the earlier invention; (2) endeavored to narrow the scope of the patent that might be issued to Gegauf; or (3) sought to show that Gegauf's invention was not patentable.

The junior applicant's right to challenge the patentability of the earlier-filed claim is important in two respects. *First*, it protects the junior applicant's right to practice his invention, even if he cannot obtain a patent therefor, by preventing the issuance of a patent to the earlier applicant. *Second*, the adversary nature of such a contest can provide an important check on the granting of invalid patent monopolies. See *Opposition and Revocation Proceedings in Patent Cases, Study No. 4, Subcommittee on Patents, Copyrights and Trademarks*, 84th Cong., 2d Sess., p. 14; Ladd, *Business Aggression Under The Patent System*, 26 U. Chi. L. Rev. 353, 356.

2. *The purpose of Singer and Gegauf in agreeing to facilitate the allowance of each other's broadest possible patent claims was to use such broad patents against the Japanese*

In January 1956, shortly after Singer had concluded its cross-licensing agreement with Vigorelli (see the Statement, *supra*, pp. 9–11), Singer discovered that Gegauf had filed in the United States an application for a patent covering multiple-cam machines, which enjoyed a priority date of nine days earlier than the Harris reissue application (GX 16, R. 1042). Singer expected that an interference would be declared between the two patents, and that Gegauf would be awarded priority over Harris (*ibid.*). Singer also recognized that in an interference proceeding "each party has an opportunity to attempt to

block the ultimate allowance of the interfering claims to the opponent party" and it concluded that the "Harris reissue application is of value to us as a means for opposing the final allowance to Bernina [Gegauf] of broad U.S. claims covering multiple-cam ornamental machines" (GX 16, R. 1042–1043). Furthermore, Singer learned from its representatives in Italy that one of the reasons Gegauf had given a royalty-free license to Vigorelli was Vigorelli's knowledge of certain patents (a list of which was submitted to Singer (GX 19, R. 1054)) "which apart from excluding that the general claim (multiple cams) could be sustained, also left open to discussion the specific claim (single cam-follower) contained in the two patents under discussion" (GX 19, R. 1052). Since these patents were the basis for Gegauf's United States application and its claim of priority in the United States (GX 175 (unprinted), Tr. 4039),[30] the patent information Singer had received from its Italian office could have been used to challenge the scope and validity of Gegauf's United States application.

But Singer realized that "no one party can or will corner the broadest patent protection [on multi-cam machines] in all or even in several of the principal countries" (GX 16, R. 1044), and concluded that its "position would be enhanced" if it could "negotiate an agreement of the Singer-Vigorelli type" with Gegauf (*ibid.*). In its negotiations with Gegauf,

[30] In its priority claim before the United States Patent Office, Gegauf referred to Swiss patent applications Nos. 80,461 and 91,361 (GX 175 (unprinted), Tr. 4039); No. 80461 was subsequently issued as Swiss patent No. 310,788 (see GX 25 (unprinted), Tr. 3508; compare GX 175 (unprinted), Tr. 4068 with *id.*, Tr. 4145).

Singer told Gegauf it "could knock out" Gegauf's claims in the United States but that "in so doing" both of them "were probably going to [be] hurt" (GX 24, R. 1063–64). Singer played upon "Gegauf's big fear" of competition in the United States from lower-priced Japanese machines and urged, as "one of the strong points of [its] argument," the necessity of being able "to fight against this Japanese competition in their building a machine that in any way reads on the patents of [Singer] and of Bernina [Gegauf] which are in conflict" (GX 24, R. 1062).

Thus, Singer was aware that "no one party can or will corner the broadest patent protection," and it entered into an agreement with Gegauf by which each undertook to facilitate the allowance to the other "of claims as broad as possible," so as to be able more effectively to "fight against the Japanese competition." The patent laws do not condone, and the Sherman Act condemns, such an agreement between competitors.

3. The agreement between Singer and Gegauf not to challenge each other's patent applications violated the Sherman Act

"[A] patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope." *Precision Instrument Manufacturing Co.* v. *Automotive Main-*

tenance Machines Co., 324 U.S. 806, 816. For these reasons, this Court has been particularly vigilant in insuring that patents are "kept within their legitimate scope," and are not used improperly to eliminate or destroy competition.

The instances are legion. Particularly in point are the cases in which this Court has invalidated provisions in patent licensing agreements which barred the licensee from attacking the validity of the licensed patent, because of "the necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid." *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, 400; *MacGregor* v. *Westinghouse Electric & Manufacturing Co.*, 329 U.S. 402; *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173. These cases reflect the fact that it is "the public interest which is dominant in the patent system" (*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 665), and that the public interest may be injured by agreements which "[tie] the hands and [seal] the lips of the only parties who would ordinarily stand suit and contest the validity of the patents" (*United States* v. *Standard Oil Co.*, 33 F. 2d 617, 630 (N.D. Ill.), reversed on other grounds, 283 U.S. 163).

Parties to a cross-licensing agreement might hesitate to attack the *validity* of each other's claims if the result might be to invalidate both claims and thus leave each without any patent protection. But it does not follow that, were it not for the agreement, Singer and Gegauf would not have atempted to narrow the

scope of each other's claims. On the contrary, each of them might well have independently decided to urge that the other should be given much narrower authority than it sought.

The cross-licensing agreement did not give either Singer or Gegauf an exclusive license under the other's patents; it merely prohibited each from attacking the other. Each was free to grant other licenses. If there had been no assignment of the patent and if Singer subsequently decided to license under its own patent, the amount of royalties it could command would obviously depend, among other things, on how broad its own patents were and how narrow were those on competing machines. Singer could expect to receive more for a license under a broad patent in an industry where the narrow scope of other patents made it unnecessary either to take licenses thereunder or to pay substantially therefor. The same considerations would also apply to Singer's competitor, Gegauf.

Thus, in terms of maximizing the "pecuniary reward for the patentee's monopoly" (*United States v. General Electric Co.*, 272 U.S. 476, 490), it would have been to the interest of both Singer and Gegauf to restrict the scope of each other's patent grants.

Instead, each of them agreed to facilitate the award of the broadest possible claims to the other. Why? Not because they hoped thereby to increase directly the amount they could receive from the legitimate exploitation of their patent monopoly. On the contrary, the reason each undertook to aid his competitor in securing broad patents was to enable them, pursuant to a common understanding, to use such broad

monopolies against their common enemy, the price-cutting Japanese.

The courts have frequently condemned such concerted action by competitors to obtain broad patents to be used to stifle competition. In *United States* v. *Hartford-Empire Co.*, 46 F. Supp. 541, 611 (N.D. Ohio), affirmed, 323 U.S. 386, the district court noted that part of the defendants' illegal conspiracy was "a course of procedure involving a shifting of claims between the patent applications of the two companies in such a manner as to obtain the strongest patents possible". The result of this agreement was that "patents issued virtually as the two cooperating companies desired," creating "a distinct handicap to inventors having applications in the Patent Office for patents that might come into competition with those sought by and issued to [the conspirators]." The court found that "[t]his joint method of action in the Patent Office in order to prevail over their adversaries resulted in distinct advantages to the two companies that otherwise might not have been obtained." See also, *United States* v. *National Lead Co.*, 63 F. Supp. 513, 532, (S.D.N.Y.), affirmed, 332 U.S. 319.

The fact, relied on by the district court (Op., R. 1712), that neither Singer nor Gegauf individually had any "affirmative duty or obligation to seek to narrow or hold unpatentable claims which are in interference" is irrelevant to the legality of their agreement not to do so. For the prohibitions of Section 1 of the Sherman Act are directed against concerted action to restrain trade, and there are many acts which, although legal if done independently, become illegal when done

jointly. For example, although an individual businessman may decide not to sell to particular customers, an agreement among two or more businesses to refrain from dealing constitutes an illegal boycott. See *Klor's, Inc.* v. *Broadway-Hale Stores, Inc.*, 359 U.S. 207.

Nor can the agreement be justified as a settlement of prospective litigation before the Patent Office. While the rules of the latter permit the settlement of interference litigation, they do not justify agreements by which the parties refrain from contesting the scope of each other's claims as a step toward eliminating a competitor. And, of course, a contest over the scope of the claims might also develop information which could lead to their rejection as invalid.

In *National Harrow Co.* v. *Hench*, 83 Fed. 36 (C.A. 3), the court, in holding that a patent pool designed "to prevent competition in business and enhance prices" violated the Sherman Act, rejected the argument that the pool was justified because it was designed to avoid litigation among the members with respect to various patents. The court stated (p. 38):

> The suggestion that the contract is justified by the situation of the parties—their exposure to litigation—is entitled to no greater weight. Patentees may compose their differences, as the owners of other property may, but they cannot make the occasion an excuse or cloak for the creation of monopolies to the public disadvantage. * * *

Congress has recently recognized that serious injuries may be done to our competitive system by im-

proper settlements of interference proceedings. In Public Law 87–831 (76 Stat. 958), enacted on October 15, 1962, Congress provided for the filing with the Patent Office of all settlements in interference proceedings. The House Committee noted that "[r]ecent experience has indicated that parties have sometimes used these interference proceedings in derogation of the public interest, in that interference settlement agreements have been entered into for the purpose of restricting competition," and it explained that the purpose of the legislation was to "make it more difficult for patent applicants and owners to use an interference settlement agreement as a means of secretly violating the antitrust laws." H. Rep. No. 1983, 87th Cong., 2d Sess., p. 1. The agreement between Singer and Gegauf to aid each other in obtaining the broadest possible claims, entered into in anticipation of an imminent interference proceeding between their competing patents, plainly comes within the spirit, if not the letter, of the evil which Congress was trying to reach by this recent legislation.

Singer's antitrust violation also involved a violation of a salutary principle which governs the conduct of applicants before the Patent Office. In the *Precision Instrument* case, *supra,* this Court, in holding that a patentee was barred from maintaining an infringement action because it withheld from the Patent Office information that perjury had been committed in an interference proceeding, stated (324 U.S. at 818):

> * * * Those who have applications pending with the Patent Office or who are parties to

> Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue. * * * Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. Only in that way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies. * * *

As we have shown (*supra*, pp. 58–61), an interference is the major adversary phase of Patent Office procedure, and the Patent Office necessarily relies on the contesting parties there to develop fully all the facts bearing on whether a patent should issue and, if so, how broad its claims should be. Since the monopoly conferred by a patent denies the public the usual benefits of competition in the patented product, the public interest is injured whenever the parties to an interference proceeding suppress any facts which might either require denial of the application or restriction of the claims. In the present case Singer and Gegauf were the parties best qualified to bring to the Patent Office's attention any information which might call for narrowing of each other's claims. Their agreement not to contest the scope of those claims violated their "uncompromising duty" to report to the Patent Office "all facts concerning possible fraud *or inequitableness* underlying the applications in issue" (*Precision Instrument, supra*, emphasis added). It would most certainly be inequitable for them to procure, through such a common plan, the

issuance of broader patents than either was entitled to receive.

CONCLUSION

The judgment of the district court dismissing the complaint should be reversed, and the case should be remanded for the entry of an appropriate decree.

Respectfully submitted.

ARCHIBALD COX,
Solicitor General.
LEE LOEVINGER,
Assistant Attorney General.
DANIEL M. FRIEDMAN,
Assistant to the Solicitor General.
ROBERT B. HUMMEL,
PATRICK M. RYAN,
GEORGE R. KUCIK,
LEE J. WEINSTEIN,
Attorneys.

MARCH 1963.

U. S. GOVERNMENT PRINTING OFFICE: 1963